



305 – PERFORMANCE BOND AND EQUITY PER MEMBER REQUIREMENTS

Effective Date: 10/01/08

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Staff responsible for policy: DHCM Finance

I. Purpose

This policy applies to all AHCCCS contractors that are required to both maintain a performance bond and meet a minimum equity requirement. The purpose of this policy is to establish standards for Contractors to meet the performance bonding and equity requirements. These standards will continue to ensure a Contractor's ability to meet its claims payment obligations, while addressing the individual differences among Contractors and enrollment growth.

II. Definitions

Equity: Net Assets that are not designated or restricted for specific purposes.

Member: For purposes of this policy, a member is defined as any acute care member enrolled at the end of the period, excluding SOBRA Family Planning members.

Performance Bond: In general, a performance bond is an instrument that provides a financial guarantee in the amount of one month's capitation. Refer to the *AHCCCS Performance Bond Policy* for definitions of acceptable instruments

III. Policy

A. Performance bonding requirements:

The initial amount of the Performance Bond shall be equal to 80% of the total capitation payment expected to be paid to the Contractor in the first month of the contract year, or as determined by AHCCCS. The total capitation amount shall include delivery supplemental payments, less premium tax. This applies to all AHCCCS lines of business except Department of Developmental Disabilities, Children's Rehabilitative Services (CRS), Comprehensive Medical and Dental Program (CMDP), Arizona Department of Health Services Division of Behavioral Health (BHS), and Medicare Advantage Plans. This requirement must be satisfied by the Contractor no later than 30 days after notification by AHCCCS of the amount required. Thereafter, AHCCCS shall evaluate the enrollment statistics of the Contractor on a monthly basis to determine if the Performance Bond must be increased. When the amount of the performance bond falls below 70% of one month's capitation, then the amount of the instrument



must be increased to at least 80% of one month's capitation. Contractors must increase the amount of the performance bond within 30 days of notice from AHCCCS.

B. Equity per member requirements:

Formula:

Unrestricted equity, less on-balance sheet performance bond, divided by the number of non-SOBRA Family Planning Extension Services members enrolled at the end of the period.

Acute Requirement:

Contractors with 0-99,999 members: \$150

Contractors with 100,000+ members: \$100

Long Term Care Requirement:

All contractors \$2,000

C. Remediation when a Contractor fails to meet the equity per member requirement:

If a contractor's equity per member falls below the requirement, then AHCCCS will review the causes for the lack of compliance. AHCCCS may require the Contractor to comply with the following measures:

- ✓ Submission of corrective action plan to increase equity
- ✓ Monthly financial reporting, if not already required
- ✓ Increase the amount of the performance bond
- ✓ Capital infusion to bring equity into compliance
- ✓ Enrollment Cap

In addition, if the contractor fails to comply with the above requirements, AHCCCS may apply sanctions as delineated in the *Sanctions Policy*.

D. Restrictions on equity:

The following asset types will constitute restricted assets, and therefore will be subtracted from a contractor's equity when calculating the equity per member ratio:

1. Assets recorded as "due from affiliates" which are resulting from transactions other than cash/bank account sweep arrangements
2. Goodwill and adjustments to other assets resulting from a purchase, including those resulting from purchases and revaluations recorded in accordance with SFAS No. 141, *Business Combinations* and EITF 88-16, *Basis in Leverage Buyout Transactions*



3. Guarantees of debt
4. On balance sheet performance bonds
5. Other assets determined to be restricted by AHCCCS

E. Requirements for Contractors with restricted equity:

If a Contractor's equity is not supported by unrestricted cash or investments, and the Contractor does not meet the equity per member requirements, then the contractor may be required to maintain a performance bond in an amount greater than 80% of one month's capitation to cover the amount of the equity necessary to meet the requirements.

IV. Division of Health Care Management (DHCM) Monitoring Responsibilities

1. DHCM financial consultants will be responsible for monitoring compliance with equity per member requirements on a quarterly basis. Analyses will be performed to determine the equity per member sufficiency. Deficiencies and requests for remediation will be communicated in writing to the contractor. The contractor will be required to submit a plan to increase the equity within 30 days.
2. The financial consultant responsible for performance bonds will monitor compliance with performance bond requirements on a monthly basis. AHCCCS will notify the contractor of required changes to the amount of the performance bond. Contractors will have 30 days to comply with new requirements.

V. References

Acute Care contract, Section D
ALTCS contract, Section D